



wynne|BUSINESS

Key Financial Indicators for Spa Success

Presented by Lisa M. Starr

Wynne Business

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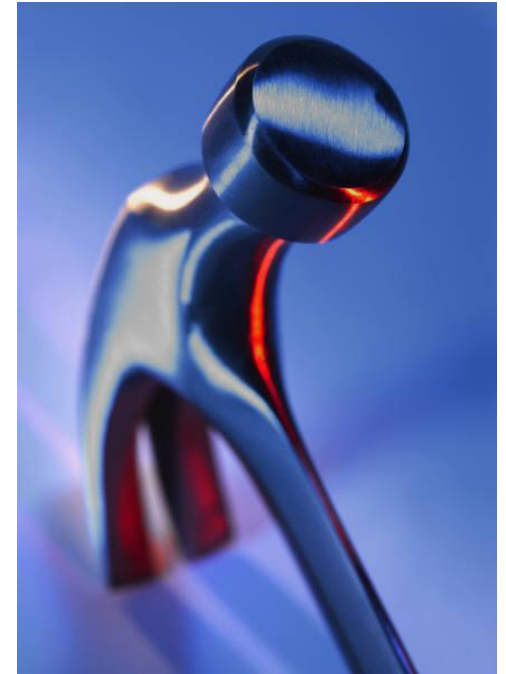
The Challenges



- Low barrier to entry for beauty industry
- Lack of business training in beauty school
- Collection of small, owner-operated, non-collaborative businesses

Financial Tools

- Income Statement
 - Dept. specific payroll & tx costs
 - Chart of Accounts
- Modernized compensation plan
- Ratios and benchmarks



Spa Income Model

- Sales of services
 - COGS service labor
 - COGS treatment supplies
- Sales of retail products
 - COGS retail commission
 - COGS cost of purchasing retail



Simplified example:

Total Revenues	\$ 2,126,433.11	100
Total Cost of Sales	\$ 1,021,160.53	48%
Gross Profit	\$ 1,105,272.58	52%
Total Expenses	\$ 1,373,510.31	65%
Net Income	\$ (268,237.73)	-13%

More Detail



Total Service Sales	\$ 1,618,523.04	
Total Retail Sales	\$ 404,711.66	
Sales- Gift C.	\$ 267,129.83	13%
Events Income	\$ 5,892.84	0%
Interest Income		0%
Sales - Tax Discounts	\$ -	0%
Other Income	\$ 39.91	0%
Gift Cards Redeem	\$ (169,864.17)	-7.99%
Total Revenues	\$ 2,126,433.11	100
Cost of Goods Sold		
Total Tech Svc Labor	\$ 560,147.53	35%
Supplies Back Bar Total	\$ 144,070.55	9%
COGS Retail	\$ 135,881.26	34%
Product Sales Commissions	\$ 56,659.63	3%
Tech Labor Payroll Taxes	\$ 55,512.65	10%
Merchant Fees	\$ 68,888.91	3%
Total Cost of Sales	\$ 1,021,160.53	48%
Gross Profit	\$ 1,105,272.58	52%

Chart of Accounts - Services

- Esthetics
 - Waxing, Mkp, Spray Tan
- Massage
 - Body Tx
- Nails
- Medical
- Hair



Chart of Accounts - Products

- 
- Esthetics Prof
 - Mass & Body Prof
 - Nails Prof
 - Makeup Prof
 - Medical Prof
 - Hair Prof
 - Miscellaneous
 - Esthetics Retail
 - Mass & Body Ret
 - Nails Ret
 - Makeup Retail
 - Medical Retail
 - Hair Retail
 - Spa Retail



Revenues			Cost of Goods Sold		
Sales Returns/Allowances	\$ (576.00)	0%	COS - Esthetics	\$ 147,106.83	14%
Service Sales - Dental	\$ 7,226.88	0.34%	COS - Hair	\$ 134,205.28	13%
Service Sales - Esthetic	\$ 382,167.29	18%	COS - Makeup	\$ 9,702.68	1%
Service Sales - Hair	\$ 359,510.50	17%	COS - Massage	\$ 164,003.28	16%
Service Sales - Makeup	\$ 14,256.00	1%	COS - Medical	\$ 12,507.27	1%
Service Sales - Massage	\$ 506,761.50	24%	COS - Nails	\$ 92,622.19	9%
Service Sales - Medical	\$ 64,206.27	3%	Total Tech Svc Labor	\$ 560,147.53	55%
Service Sales - Nail	\$ 280,730.60	13%			
Sales - Tanning	\$ 4,240.00	0%	Supplies - Esthetics	\$ 30,573.38	3%
Total Service Sales	\$ 1,618,523.04	76%	Supplies - Hair	\$ 32,355.95	3%
			Supplies - Makeup	\$ 285.12	0%
Retail - Boutique	\$ 120,203.66	6%	Supplies - Massage	\$ 15,202.85	1%
Retail - Esthetics	\$ 165,422.00	8%	Supplies - Medical	\$ 46,002.11	5%
Retail - Hair	\$ 47,815.00	2%	Supplies - Nail	\$ 19,651.14	2%
Retail - Makeup	\$ 24,991.00	1%	Supplies Back Bar Total	\$ 144,070.55	14%
Retail - Massage	\$ 18,396.00	1%			
Retail - Nail	\$ 27,884.00	1%	COGS Ret Esthetics	\$ 46,318.16	5%
Total Retail Sales	\$ 404,711.66	19%	COGS Ret Hair	\$ 23,907.50	2%
			COGS Ret Makeup	\$ 5,498.02	1%
Sales- Gift C.	\$ 267,129.83	13%	COGS Ret Massage	\$ 9,198.00	1%
Events Income	\$ 5,892.84	0%	COGS Ret Nail	\$ 11,153.60	1%
Interest Income			COGS Ret Boutique	\$ 39,805.98	4%
Sales - Tax Discounts	\$ -	0%	COGS Retail Total	\$ 135,881.26	13%
Other Income	\$ 39.91	0%			
Gift Cards Redeem	\$ (169,864.17)	-7.99%	Product Sales Commission	\$ 56,659.63	6%
Total Revenues	\$ 2,126,433.11	100%	Tech Labor Payroll Taxes	\$ 55,512.65	5%
			Merchant Fees	\$ 68,888.91	7%
%s of Total Revenues & Total Costs			Total Cost of Sales	\$1,021,160.53	48%
			Gross Profit	\$1,105,272.58	52%

Skin Department Analysis



Esthetic Dept Revenue	\$ 547,589.29	
Labor - Esthetic Department	\$ 171,920.13	31%
Supplies - Esthetics	\$ 80,199.98	
Esthetic Dept Gross Profit	\$ 295,469.17	54%
Service Sales - Esthetic	\$ 382,167.29	
Service Labor - Esthetic	\$ 147,106.83	
Back Bar - Esthetics	\$ 30,573.38	
Service Gross Profit - Esthetics	\$ 204,487.07	54%
Retail Sales - Esthetics	\$ 165,422.00	
Retail Commission - Esthetics	\$ 24,813.30	
COGS Retail - Esthetics	\$ 49,626.60	
Retail Gross Profit - Esthetics	\$ 90,982.10	55%

Hair Department Analysis

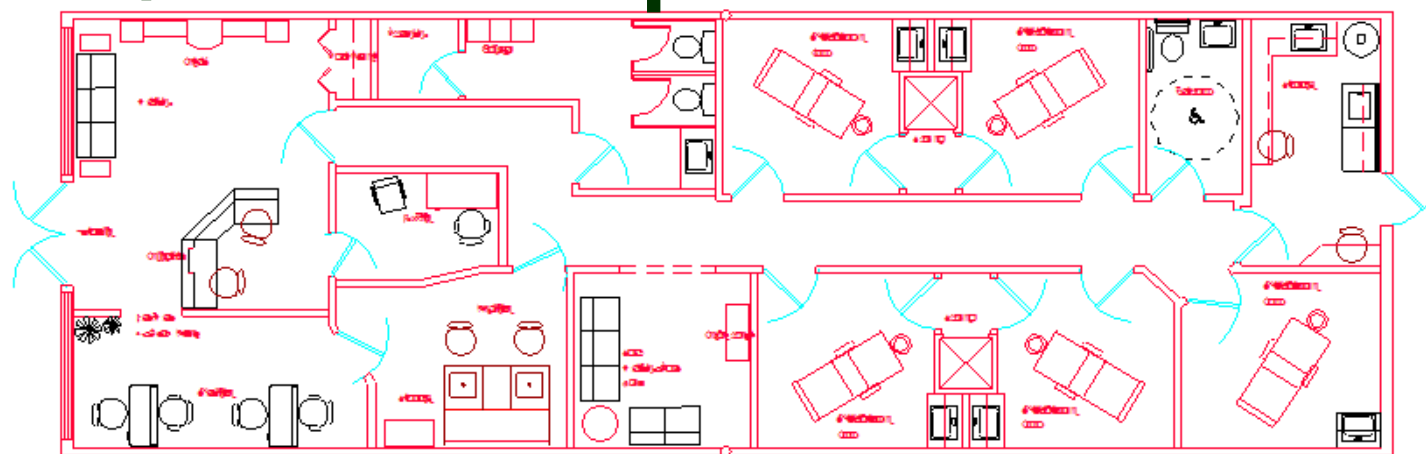
Hair Dept Revenue	\$ 407,325.50	
Labor - Hair	\$ 138,986.78	34%
Supplies - Hair	\$ 56,263.45	
Hair Dept Gross Profit	\$ 212,075.28	52%
Service Sales - Hair	\$ 359,510.50	
Service Labor - Hair	\$ 134,205.28	
Back Bar - Hair	\$ 32,355.95	
Service Gross Profit - Hair	\$ 192,949.28	54%
Retail Sales - Hair	\$ 47,815.00	
Retail Comm - Hair	\$ 4,781.50	
COGS Retail - Hair	\$ 23,907.50	
Retail Gross Profit - Hair	\$ 19,126.00	40%

Revenue per Square Foot

- 14k square foot facility
- 9 treatment rooms - 5 esthetics, 4 mass
- 10 pedicure, 5 manicure
- 8 hair cutting, 4 hair color
- Mens & Women's locker rooms
- Quiet lounge, transition area, retail

Overall Rev/Sq Foot

\$2.2m year / 14,000 sq ft =
\$151 / square foot



Sq Ft Dept Breakdowns



- Hair Dept 2000 sq ft
- Esthetics 1100 sq ft
- Mass & Body 900 sq ft
- Nails 1200 sq ft

Svc Sales/Square Foot by Department

Department	Annual Svc \$	Sq Ft	Svc \$/Sq Ft
Hair	\$ 359,510.50	2000	\$ 179.76
Esthetics	\$ 382,167.29	1100	\$ 347.42
Massage & Body	\$ 506,761.50	900	\$ 563.07
Nails	\$ 280,730.60	1200	\$ 233.94

Total Sales/Sq Ft by Department

Department	Svc + Ret	Sq Ft	Svc \$/Sq Ft	Total \$/Sq Ft
Hair	\$ 407,325.50	2000	\$ 179.76	\$ 203.66
Esthetics	\$ 547,589.29	1100	\$ 347.42	\$ 497.81
Massage & Body	\$ 525,157.50	900	\$ 563.07	\$ 583.51
Nails	\$ 308,614.60	1200	\$ 233.94	\$ 257.18

Support Detail

Support Compensation		
Payroll - Concierges	\$ 157,581.87	38%
Payroll - Fees	\$ 2,336.36	1%
Payroll - Management Salaries	\$ 123,004.18	30%
Payroll - Support Taxes	\$ 25,252.74	6%
Insurance - Employee Benefits	\$ 31,466.67	8%
Insurance - Business	\$ 50,716.77	12%
Insurance - Life	\$ 1,195.00	0%
Insurance - Workmans Comp	\$ 18,652.08	5%
	\$ 410,205.67	19.29%
		<i>of total rev</i>

Controlling COGS

- Labor is your single cost of doing business
- The wrong compensation plan will enrich your staff and put you out of business



Leverage point - COGS

- Labor – Your largest expense

- Technical Staff

- Hourly Staff

- Management/Salaried Staff

- Taxes & Benefits



Common comp methods

- Straight or Graduated Commission
- Hourly + Commission
- Hourly + Incentive or Bonus
- Treatment rate/fee for service
- Independent contractors
- Booth rental

Commission: The most common form of comp



PROS:

- Easy to manage, simple to understand
- You don't have to pay people unless there's a sale
- Encourages higher sales by techs
- Typical range: 40-60% of service, 10% retail

Commission - *cont'd*

CONS:

- Forces clients to pay higher prices
- Only source of pay increases except higher volume or bigger cut
- Prices increases are automatically shared
- Does not reward teamwork
- Connects what client pays to what tech earns

Sample Treatment Rates

60 minute services		BRONZE LEVEL: 0-1 yr 30% mass, 28% esty	SILVER LEVEL: 1-3 yrs 32% mass, 30% esty	GOLD LEVEL: 3-5 yrs 34% mass, 3 2% esty	PLATINUM LEVEL:5+ yrs 36% mass, 34% esty
Classic Mass	\$85	\$25.50	\$27.20	\$28.90	\$30.60
Deep Tissue	\$95	n/a	\$30.40	\$32.30	\$34.20
Classic Facial	\$85	\$21.00	\$24.00	\$27.20	\$28.90
Micrdrm Trtmt – 45 min	\$105	n/a	\$24.70	\$29.40	\$31.50

Expense Ratios

■ Professional inventory costs, by department

- Skincare 5-8%
- Nails 4%
- Massage / Body 1 - 2%
- Makeup 1%
- Hair 6-7%



Expense Ratios – *cont'd*

- Rent & Utilities
- Advertising & Marketing
- Contribution to burden
- Cleaning, Repairs & Maintenance
- Training & Education
- PROFIT!

REALITY CHECK:

Spa LaLa, an upscale spa salon



SERVICE SALE: “BEFORE”

\$100 Spa LaLa Signature Facial

(\$50) Commission Cost of Sale

(\$5) Payroll burden (10% of payroll minimum)

(\$7) Product Cost (varies with type of service)

\$38 GROSS PROFIT (Cost of Sales: 68%, GPM 32%)

\$40 Spa Overhead Expense* (40%)

(\$2) PROFIT/LOSS

*** typical overhead ratio for upscale spas & salons**

Look at the big picture

- Average day spa - 40% overhead expense
- Support staff - 10-12%
- Profit - 5%
- 45% left to pay technicians (includes taxes & benefits)

Revenue Ratios

- Average ticket for spa or salon
 - $\text{Service \$} + \text{Retail \$} / \text{number of clients}$
- Average ticket for operator
- \$ per hour per station
- \$ sales per square foot



Ways to affect average ticket . . .

- Upsell client to higher priced service
- Add micro treatments to original service
- Retail
- All 3!



Revenue Ratios *cont'd*

- Utilization/Productivity rates
- Property Occupancy rates
- Retention vs Request
- Capture Rates
- Hotel ADR



Recommended Retail Ratios



Retail % of *Service Sales*

Day Spa

- Hair - 10-15%
- Skincare - 35-50 %
- Massage/Body 1-5%
- Nails - 5-15%
- Cosmetics - 40-100%
- Gift - 10-40%

Resort Spa

- Hair - 5-10%
- Skincare - 15-30%
- Massage/Bdy - 0-5%
- Nails - 0-10%
- Cosmetics - 25-50%
- Gift - 5-15%

Where to Start?

- Is each workstation staffed for maximum productivity?
- Do operating hours reflect demand?
- Is there an inventory management program in place?
- Is there a retail sales program in place?



Where to Start?



- Does your compensation plan drive the right behaviors?
- Are your ratios aligned with benchmarks?
- Does your menu reflect an ability to upsell and increase average tickets?
- Are your performance appraisals tied to financial behaviors?

Key Financial Indicators



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